

Message Text

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C O N F I D E N T I A L SECTION 01 OF 02 LONDON 10062

NODIS

FOR EB/ORF/OF - FERCH FROM BOYLE

E.O. 11652: GDS
TAGS: EAGR, ETRD, OCON
SUBJECT: INTERIM COMMITTEE - IWA

REF: (A) FERCH/BOYLE TELCON - 6/23; (B) LONDON 9863;
(C) LONDON 9862; (D) LONDON 9702; (E) LONDON 9651;
(F) LONDON 9610

1. THE AVAILABILITY IN WASHINGTON THIS WEEK OF THE U.S. DELEGATION TO THE RECENTLY CONCLUDED INTERIM COMMITTEE WILL ALLOW FOR IN-DEPTH DISCUSSIONS OF THE UNRESOLVED SUBSTANTIVE ISSUES, PREPARING TACTICS FOR THE NEXT AND .
FINAL SESSION (JULY 7-12), AND ASSESSING THE OUTLOOK FOR ACHIEVING AN IWA WITH RESERVE STOCKS. AS PROMISED HERE ARE SOME PERSONAL IMPRESSIONS ON SOME OF THE SUBSTANTIVE ISSUES AND SOME THOUGHTS ON THE NEXT SESSION OF THE INTERIM COMMITTEE.

2. THE MAJOR OBSTACLES (SEE REFERENCES B THROUGH F) IN CONCLUDING A NEW IWA ARE:

(L) NOTIONAL PRICES - THEIR DEFINITION AND
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OBLIGATIONS, IF ANY, RELATED TO THEM;

(2) THE NATURE OF A COARSE GRAINS AGREEMENT;

(3) SIZE OF THE IWA GLOBAL RESERVE STOCK AND
SPECIFIC COUNTRY SHARES;

(4) SUPPLY ASSURANCES;

(5) SPECIAL PROVISIONS FOR DEVELOPING COUNTRIES; AND

(6) EXPORT SUBSIDIES.

3. NOTIONAL PRICES AND COARSE GRAINS

EC AND U.S. (ALONG WITH OTHER EXPORTER) DIFFERENCES CONCERNING NOTIONAL PRICES AND THE NATURE OF A COARSE GRAINS AGREEMENT ARE THE PRINCIPAL ONES WHICH FRUSTRATE ACHIEVING AN IWA. THE EC DOES NOT CONSIDER NOTIONAL PRICES TO BE MERELY SYMBOLICAL. THESE PRICES, THE EC INSISTS, MUST ENTAIL OBLIGATIONS TO ENSURE THAT PRICES REMAIN WITHIN THE NOTIONAL PRICE BAND. PRESUMABLY THESE OBLIGATIONS WOULD INCLUDE AN INTENSIFICATION OF ACTIONS AT THE SECOND RISING AND FALLING PRICE POINTS. THE EC EMPHASIS ON HAVING AN ALERT PRICE INDICATOR IN A COARSE GRAINS AGREEMENT CORRESPONDS TO ITS VIEW THAT A MEANINGFUL IWA MUST BE COMPLEMENTED BY AN EFFECTIVE COARSE GRAINS AGREEMENT. THE EC ARGUES THAT IF COARSE GRAINS MOVE FREELY WHILE WHEAT PRICES ARE CONTROLLED, A RISE IN COARSE GRAINS PRICES WILL ENCOURAGE THE USE OF WHEAT FOR FEED. THIS, IN TURN, WILL ERODE THE EFFECTIVENESS OF WHATEVER IWA IS ACHIEVED.

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4. GLOBAL RESERVE SIZE, SPECIFIC COUNTRY SHARES AND SPECIAL PROVISIONS FOR DEVELOPING COUNTRIES

THE EC (AND IC CHAIRMAN DUNKEL) HAVE EXPRESSED GREAT SKEPTICISM ABOUT THE DESIRABILITY OF THE U.S. PROPOSED FIGURE OF 30 MMT FOR A GLOBAL RESERVE. THE EC (JACQUOT), IN THIS CONNECTION, HAS CRITICIZED THE U.S. AND CANADA FOR PROPOSING THAT THEY TOGETHER HOLD RESERVES OF ABOUT 6.7 MMT IN SUCH AN ARRANGEMENT. HE NOTED THAT THIS REPRESENTS ABOUT 16 PERCENT OF THEIR COMBINED EXPORT TRADE (42 MMT) WHILE THE EC, WHOSE EXPORT TRADE IS ABOUT 5 MMT, IS WILLING TO HOLD 2.3 MMT. IN THIS CONNECTION, THE EC CHALLENGED THE U.S. TO BE SPECIFIC ABOUT WHAT SHARES EACH COUNTRY WOULD HAVE UNDER A 30 MMT SCHEME AND HOW THE U.S. (AND OTHER EXPORTERS PLUS JAPAN) WOULD ASSIST DEVELOPING COUNTRIES TO FINANCE THE ACQUISITION OF RESERVE STOCKS.

4. SUPPLY ASSURANCES

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THE EC,JAPAN,AND CERTAIN DEVELOPING COUNTRIES
ARGUE THAT U.S. UNWILLINGNESS TO GIVE SUPPLY ASSURANCES
TO MEMBER COUNTRIES OF THE IWA PLACES IN DOUBT THE
UTILITY OF THE AGREEMENT.

5. EXPORT SUBSIDIES

PROGRESS IN THIS AREA, AT LEAST IN THE PLENARY
SESSIONS, SEEMS TO HAVE BEEN LITTLE. THE EC ARGUES
THAT IF EXPORT SUBSIDIES ARE TO BE ADDRESSED THEN
PRODUCTION AND TRANSPORT SUBSIDIES ARE EQUALLY FAIR
GAME.

6. IN MAKING MANY OF ITS ARGUMENTS, THE EC, RATHER
THAN EXTOLLING THE VIRTUES OF THE CAP, APPEALED MORE TO
THE INTERESTS OF DEVELOPING COUNTRIES IN ACHIEVING
FOOD SECURITY. ITS TACTICAL INTERESTS IN DOING THIS
ARE SELF-EVIDENT. OUR INABILITY TO BE MORE SPECIFIC
IN TALKING ABOUT ACQUISITION AND RELEASE PRICES,
FINANCIAL ASSISTANCE FOR DEVELOPING COUNTRIES TO HELP
THEM CARRY STOCKS, AND ELIMINATION OF STOCKS REQUIRE-
MENT FOR SPECIFIED DEVELOPING COUNTRIES ALLOWED THE
EC A GOOD DEAL OF TACTICAL ADVANTAGE.

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7. MOREOVER THE EC REPS (INCLUDING PIZUTTI WHO STOPPED HERE EN ROUTE FROM THE JUNE 19-20 MEETINGS IN WASHINGTON) IN CORRIDOR CONVERSATION INDICATED THAT THE U.S. NEEDS AN IWA FOR AN MTN PACKAGE BY JULY 15. IN EFFECT, THE EC TACTICS SEEM TO BE BASED ON THE PREMISE THAT THE U.S. IS IN A DEMANDEUR POSITION. THESE TACTICS PLUS LACK OF BROAD SUPPORT FOR THE U.S. VERSION OF AN IWA HAVE HAD THEIR EFFECT ON INDUSTRY REPS (HALOW AND WOODWARD). THEIR CONCERNS ABOUT THE POTENTIALLY HARMFUL EFFECTS OF AN IWA/GRAINS AGREEMENT HAVE PRESUMABLY BEEN REENFORCED. IN THEIR VIEW THERE HAVE BEEN AND THERE ARE UNLIKELY TO BE ANY TANGIBLE RESULTS (E.G. ACCESS TO THE EC MARKET, REGULATION OF COMPETITION IN THIRD COUNTRY MARKETS, ETC.) FLOWING FROM OUR "CONCESSIONS" ON NOTIONAL PRICES AND ON COARSE GRAINS. IN GENERAL THEY NOW SEEM TO QUESTION THE POLITICAL GAINS OF THE IWA ALONG WITH THEIR LONG-STANDING CONCERN ABOUT THE POTENTIAL COMMERCIAL DISADVANTAGES.

8. POSSIBLY OFF-STAGE EVENTS WILL ALLOW THE INTERIM COMMITTEE'S NEXT SESSION TO CONCLUDE AN IWA PACKAGE ACCEPTABLE NOT ONLY TO INDUSTRY BUT ALSO ONE WHICH ACHIEVES ITS ORIGINAL PURPOSE, NAMELY A GREATER DEGREE OF WORLD FOOD SECURITY. THE NEXT ROUND OF IC TALKS WILL HAVE THE ADVANTAGE OF HAVING POLICY LEVEL OFFICIALS FROM THE CONCERNED NATIONS ALSO AVAILABLE IN GENEVA. THIS MIGHT PERMIT QUICK RESOLUTION OF SOME OF THE OUTSTANDING ISSUES AND ALSO ENSURE THAT TECHNICIANS, SUCH AS JACQUOT, DO NOT FRUSTRATE HIGH LEVEL POLITICAL AGREEMENT.

9. NOTWITHSTANDING, GIVEN THE TIME CONSTRAINT, THE DISTANCE BETWEEN OUR POSITION AND THOSE OF OTHER MAJOR

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PARTICIPANTS ON THE PRINCIPAL ISSUES AND OUR OWN LIMITED NEGOTIATING FLEXIBILITY (GIVEN THE NEED FOR A MODICUM OF U.S. INDUSTRY APPROVAL), I THINK WE SHOULD SIGNAL OUR INTENTIONS CLEARLY TO OTHER COUNTRIES (EC, CANADA, AUSTRALIA, ARGENTINA, INDIA, BANGLADESH) PRIOR TO THE NEXT INTERIM COMMITTEE MEETING. ESSENTIALLY THEY SHOULD BE MADE TO UNDERSTAND THAT IF OUR PRESENT POSITIONS, PARTICULARLY ON NOTIONAL PRICES AND A COARSE GRAIN AGREEMENT, ARE NOT ACCEPTABLE THAN OUR NEED TO WIN CONGRESSIONAL APPROVAL FOR AN IWA WILL RESULT IN NO IWA. OUR FLEXIBILITY ON MEANINGFUL SUPPLY ASSURANCES IS LIKEWISE RESTRICTED BY DOMESTIC REALITIES. GLOBAL RESERVE SIZE AND PROVISIONS FOR DEVELOPING COUNTRIES WOULD SEEM MORE SUSCEPTIBLE TO MEANINGFUL NEGOTIATIONS.

10. IF WE CANNOT GAIN ACCEPTANCE OF THIS THEN WE SHOULD BE PREPARED TO USE THE NEXT INTERIM COMMITTEE SESSION TO GAIN SOME IMPROVEMENT OVER THE PRESENT IWA (E.G. EXPANDED FOOD AID CONVENTION) AND/OR TO RECOGNIZE THAT A DIFFERENT FORMULA (E.G. GRAIN STOCK INSURANCE SCHEME) IS MORE REALISTIC THAN AN IWA WITH BROADLY HELD RESERVE STOCKS.

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